

# Part-Year Resident Personal Income Tax

## General Instructions

If you are unable to determine the proper line to use, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix .....	(602) 255-3381
Tucson .....	(520) 628-6421
Other Arizona areas .....	1-800-352-4090
Form Orders .....	(602) 542-4260
Forms by Fax .....	(602) 542-3756
<b>Recorded Tax Information</b>	
Phoenix .....	(602) 542-1991
Other Arizona areas ....	1-800-845-8192
<b>Hearing impaired TDD user</b>	
Phoenix .....	(602) 542-4021
Other Arizona areas ....	1-800-397-0256

## Are You Subject to Tax in Arizona?

**A. Residency Status.** A resident is anyone domiciled in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country.

For more information on determining residency for Arizona income tax purposes, see Arizona Department of Revenue Procedure ITP 92-1. To get a copy of this procedure, call one of the help numbers listed on this page.

**B. If you were a resident** of Arizona for less than 12 months during 1995, that is you moved into or out of Arizona with the intent to establish or relinquish residency, you are subject to tax on:

Any income you earned in 1995 while an Arizona resident, including any interest or dividends received from sources outside of Arizona; **and**

any income you earned from an Arizona source in 1995 before moving to (or after leaving) the state.

**NOTE:** *If you also have Arizona source income and deductions for the portion of the taxable year for which you were an Arizona nonresident, file Arizona Form 140PY for the entire taxable year. On this return, you should report all income and deductions for the portion of the year for which you were a part-year Arizona resident together with any income and deductions from Arizona sources for the portion of the year that you were an Arizona nonresident.*

**NOTE:** *You must file a state return even though all or part of the tax has been withheld.*

**C. Military Personnel.** If you were an Arizona resident when you entered the military, you continue to be an Arizona resident regardless of where you are stationed. You continue to be an Arizona resident unless you establish a new domicile. As an Arizona resident you are subject to Arizona income taxes on all of your income (including your military pay). If you are stationed in Arizona on military orders and are not an Arizona resident, Arizona does not tax your military pay. If you earn other income in Arizona, that income is taxable by Arizona. Use Form 140NR, Nonresident Personal Income Tax Return, to report this income. If you are an active military member who either established or relinquished Arizona residency during 1995, file Form 140PY to report income subject to Arizona income tax.

For more information, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*. To get a copy of this brochure, call one of the help numbers listed on this page.

**D. Deceased Taxpayer.** When a taxpayer dies during the year, the surviving spouse or personal representative may have to file a final return. Use the form the taxpayer would have used. Enter the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name. The surviving spouse may file a joint return with the deceased taxpayer. If you are filing a joint return,

write "filing as surviving spouse" in the area for the deceased spouse's signature. Include the deceased taxpayer's income up to the date of death for the portion of the year he or she was an Arizona resident. Also include your income for the portion of the year you were an Arizona resident. **If the booklet was mailed to you, do not use the label.**

If requesting a refund, attach Form 131, Claim for Refund on Behalf of Deceased Taxpayer, to the front of the return. It may be necessary to file fiduciary or estate tax returns also. Call the Arizona Department of Revenue for details at (602) 542-4022.

**E. American Indians.** You must file an Arizona income tax return if you meet the Arizona filing requirements unless all of the following apply to you.

1. You are an enrolled member of an Indian tribe.
2. You live on the reservation established for that tribe.
3. You earned all of your income on that reservation.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 91-3. To get a copy of this ruling, call one of the help numbers listed on this page.

**F. Spouses of American Indians.** See Arizona Department of Revenue Income Tax Ruling ITR 91-3 if you are a non-Indian married to an Indian described in paragraph E above. Also see Arizona Department of Revenue Income Tax Ruling ITR 91-3 if you are a non-enrolled Indian married to an Indian described in paragraph E above. To get a copy of this ruling, call one of the help numbers listed on this page.

**G. Parents Electing to Claim Certain Unearned Income of Their Children on Their Federal Income Tax Return Under IRC 1(i)(7).** When a child's unearned income is included in the parent's federal adjusted gross income, that same income must be included in the parent's

Arizona taxable income. The child should not file an Arizona income tax return.

## Do You Need To File a Return?

Your filing status and income determine if you must file an Arizona income tax return. To get a refund of any Arizona income tax withheld you must file a return.

Gross income is gross income defined under the Internal Revenue Code less income included in gross income that is excluded from Arizona taxation.

## Filing Status and Income Chart

The following rules are for all Arizona taxpayers.

You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least:
Single	\$ 15,000	\$ 5,500
Married filing jointly	\$ 15,000	\$ 11,000
Married filing separately	\$ 15,000	\$ 5,500
Unmarried head of household	\$ 15,000	\$ 5,500

Your Arizona adjusted gross income is found on line 22 of Arizona Form 140PY.

Residents of Arizona must report their income from **all** sources, including out-of-state income.

## When Should You File?

Your 1995 tax return is due no later than midnight, April 15, 1996.

File your return as soon as you can after January 1, but no later than April 15, 1996. To avoid penalties and interest, the U.S. Postal Service must postmark your return by April 15, 1996.

If you know you will not be able to file on time, you may request an extension. *An extension does not extend the time to pay your income tax. Failure to pay at least 90 percent of the tax due by the original due date will result in a penalty.* Beginning April 16, Arizona charges interest on any unpaid tax. The extension underpayment penalty is one-half of one percent (.005) per month. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

**To get a filing extension, you can either:**

1. Apply for a state extension - (Form 204). To request a filing extension for only your Arizona return, file Arizona

Form 204 by April 15. See Form 204 for details.

2. Use your federal extension - (Federal Form 4868 or 2688). Arizona will accept your federal extension for the same period. Attach a copy of the federal extension to the front of your return. The IRS must have approved the federal extension granted on federal Form 2688. However, if you must make a payment, you must use Arizona Form 204.

*Attach a copy of your extension to the front of your return when you file.*

## Nonresident Aliens

Nonresident aliens having federal income tax returns due on June 15 must file Arizona tax returns by April 15.

To file an Arizona return at the same time the federal return is due, file for an extension by April 15.

At least 90 percent of your tax liability is due by April 15. Those filing for a federal four-month extension must file an Arizona extension for both the four-month and two-month extensions. See Form 204 for extension filing details.

When you do not file your Arizona return or extension by April 15, you may incur interest and penalties. Late filing and late payment penalties and interest will apply to the unpaid tax liability.

## Penalties and Interest

**A. Late Filing Penalty.** The late filing penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** The department imposes this penalty

if you do not pay 90 percent of the tax liability shown on your return filed under an extension by the return's original due date. The department also imposes this penalty if you do not attach the extension to your return when you file. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department imposes this penalty from the original due date of the return until you pay the tax. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

**C. Late Payment Penalty.** The department imposes the late payment penalty if you do not pay the tax by the time prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

**NOTE:** *If you are subject to two or more of the above three penalties, the maximum combined penalty cannot exceed 25 percent.*

**D. Interest.** The department charges interest on any tax not paid by the due date even if you have an extension. The department charges interest from the original due date to the date of payment. The Arizona rate of interest is the same as the federal rate.

Contact one of the help numbers listed on page 1 of these instructions for the current interest rate.

**Estimated Penalty.** The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 221 for further details.

## Do You Need To Make Estimated Payments in 1996?

You must make Arizona estimated income tax payments during 1996 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1996.
2. Your Arizona gross income in 1995 was greater than \$75,000.

For purposes of determining if estimated tax payments are required for individuals who move into or out of Arizona during the tax year, the Arizona gross income for the portion of the year in which you are a resident is that portion of your federal adjusted gross income reportable to Arizona.

In projecting current Arizona gross income, you must use ordinary business care and prudence in determining if estimated tax payments are required.

An individual who fails to make the required estimated payments is subject to a penalty and interest on any estimated tax payment which is late or underpaid.

An individual who is not required to make mandatory Arizona estimated income tax payments may choose to make Arizona estimated income tax payments.

For more information, see Arizona Forms 140ES and 221. Also see Arizona Department of Revenue Income Tax Ruling ITR 92-1. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

## How do You Amend a Return?

To make a change in your return for 1995 or prior years, file an Arizona Form 140X, Individual Amended Return. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If the Internal Revenue Service changes your federal taxable income, you must file an Arizona Form 140X for that year. Attach a complete copy of the IRS agent's report. If there are any changes to your federal taxable income, you must amend your Arizona return within 90 days of the change.

## Instructions for Completing Arizona Form 140PY

### Tips for Preparing Your Return:

- Complete your return using black ink.
- You may round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

- When asked to provide your own schedule, attach a separate sheet with your name and social security number at the top. Attach your own schedules to the back of your return.
- Complete your federal return before you start your Arizona return.
- Include your home telephone number and a daytime telephone number, if different.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

## Entering Your Name, Address, and Social Security Number

### Lines 1, 2, and 3 -

If your booklet has a pre-addressed label on the cover, use that label if all the information is correct. **Do not use the label if any information is incorrect.**

If there is no correct pre-addressed label, print or type your name, address, and social security number in the space provided. If filing a joint return, enter both social security numbers in the same order as your first names. If you and your spouse have different last names, separate your last names with "and". Put them in the same order as your first names and social security numbers.

The department issues refunds under both first name initials and the first last name listed on the return. For a deceased taxpayer, see page 1 of the instructions.

Use your current home address. The department will send any refund or correspondence to that address.

**NOTE:** *Make sure your social security number is correct and listed in the same order every year if filing jointly.*

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty.

Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect or unclear identification numbers may cause delays in processing the returns. If you are filing jointly, enter your social security numbers in the same order every year. *If your name appears first on the return, make sure your social security number is the first number listed.*

## Determining Your Filing Status

The filing status used on your federal return may be different from that used on your Arizona return. Use this section to determine your correct filing status and check the appropriate box (4 through 7) on the front of Form 140PY.

### Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1995. It does not matter whether or not you were living with your spouse. You may use this filing status if your spouse died during 1995 and you did not remarry in 1995. See "Deceased Taxpayer" section on page 1 for more information.

If you are a part-year resident married to an Arizona full year resident, you may file a joint return using the 140PY. For more information, see Arizona Department of Revenue Income Tax Ruling ITR 95-2. To get a copy of this ruling, call one of the information numbers listed on page 1 of these instructions.

### Line 5 Box - Unmarried Head of Household

You may use this filing status if you meet all the following.

1. You were either single, divorced, or legally separated on December 31, 1995.

**NOTE:** *Arizona law is different from federal law. You cannot file unmarried head of household if you are an abandoned spouse or married living apart.*

2. You have a qualified dependent you are entitled to claim as an exemption. See instructions for line 10 box to find a list of those dependents who qualify.

**NOTE:** Arizona law is different from federal law. You cannot use this filing status when you cannot claim the dependent as an exemption.

3. Both of the following conditions must apply for your taxable year:

- A. You maintained as your home a household which was the dependent's main home.
- B. You furnished over one-half of the cost of maintaining that household.

If you qualify for unmarried head of household status, check the line 5 box. Enter your dependent's name in the space provided.

#### Line 6 Box - Married Filing Separately

Use this filing status if married on December 31, 1995, and filing a separate Arizona return.

Check the line 6 box and enter your spouse's name and social security number in the space provided.

Arizona is a community property state. Separate Arizona income tax returns must reflect one-half of the community income taxable to Arizona plus any separate income taxable to Arizona.

You must account for community deductions and credits on the same basis as community income. Both filers must either itemize or not itemize. One may not claim a standard deduction while the other itemizes deductions. If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

If you were a part-year Arizona resident during 1995 and you file a separate Arizona income tax return, your separate Arizona part-year resident return must reflect: (1) one-half of the **total community income** from **all sources** which was recognized or realized during the portion of the year in which you were an Arizona resident; plus (2) any separate income which was recognized or realized during the portion of the year in which you were an Arizona resident; plus (3) one-half of the total community income from Arizona sources

during the portion of the year in which you were an Arizona nonresident; plus (4) any separate income derived from Arizona sources during the portion of the year in which you were an Arizona nonresident. If your spouse is a nonresident of Arizona and a resident of another community property state, total community income would include one-half of the community income derived from the other state which was recognized or realized during the portion of the year in which you were an Arizona resident.

#### Line 7 Box - Single

Use this filing status if unmarried or legally separated on December 31, 1995, and you cannot use head of household. Legally separated means under a decree of divorce or of separate maintenance.

#### Totaling Your Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you omit names, relationships, and social security numbers on page 2, Part A.

#### Line 8 Box - Age 65 or Over

Write "1" in box 8 if you or your spouse were 65 or older in 1995. Write "2" in box 8 if both you and your spouse were 65 or older in 1995.

#### Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.
2. Your field of vision is 20 degrees or less.

#### Line 10 Box - Dependents

Before totaling your dependent exemptions, you must complete Part A on page 2 of your return.

**NOTE:** Arizona law is different from federal law. A divorced parent must furnish over one-half of a dependent's support to claim a dependent as an exemption. A divorced parent cannot claim a dependent without meeting the support test.

#### Line A1 - Dependents Related to You

List as dependents any of the following if you provided more than half of their support during 1995:

- child, stepchild, adopted child grandchild
- son-in-law, daughter-in-law, brother-in-law, sister-in-law
- parent, grandparent, mother-in-law, father-in-law
- brother, sister
- stepparent, stepbrother, stepsister

#### If related by blood:

- uncle, aunt, nephew, niece

#### The following groups do not qualify as dependents:

- yourself, spouse
- cousins, foster children
- citizens of any country other than Canada and Mexico who do not live in the U.S.
- roommate, non-relatives

#### Support includes:

- food, medical and dental care, fair rental value of lodging
- cash contributions, recreation, education, furniture
- appliances and cars bought for a dependent's transportation

You may claim an exemption for a dependent who is born or dies during the year if he or she meets the test above.

Write the dependent's name(s), relationship and social security number(s) on line(s) A1. You may lose the exemption if you do not furnish this information.

**Line A2 - Dependents Age 65 or Over**

List here any Arizona resident who is 65 or over if, in 1995, you did one of the following.

1. Paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
2. Paid more than \$800 for either Arizona home health care or other medical costs for the person.

**Tax Tip:** *You may claim this exemption even if the person is a non-relative.*

Do not list any person on line A2 whom you have already listed on line A1.

**Line A3 - Total Dependents**

Enter the total number of persons listed on lines A1 and A2. Enter the same number on the front of the return in box 10.

**Reporting Your Residency Status**

Check the appropriate box.

**Line 11 Box - Part-Year Resident**

Check box 11 if you were an Arizona resident for part of 1995.

**Line 12 Box - Part-Year Resident Active Military**

Check box 12 if you were an active duty military member who either established or relinquished Arizona residency during 1995.

Now complete Parts B, C, and D on page 2 of the return.

**Determining Arizona Income**

Use Part B to determine what portion of your total income is taxable by Arizona.

**NOTE:** *If you are unable to determine the proper line to use, please contact one of the help numbers listed on page 1 of these instructions.*

**FEDERAL Column**

First, enter in the FEDERAL column the actual amounts shown on your 1995 federal income tax return. Complete lines B5 through B18. Line B18 should equal the federal adjusted gross income shown on your 1995 federal return Form 1040, Form 1040A, or Form 1040EZ.

**ARIZONA Column**

Enter in the Arizona column that portion of your federal income received while you were an Arizona resident. For example, if you became an Arizona resident on June 30, enter all income you received from that day to December 31, 1995.

**NOTE:** *If you also have Arizona source income for the portion of the taxable year for which you were an Arizona nonresident, also include that source income on the appropriate line in the Arizona column.*

The Tax Reform Act of 1986 limits the amount of losses that may be deducted from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

With respect to a part-year resident taxpayer, only passive activity losses arising while an Arizona resident are to be considered in determining Arizona gross income.

With respect to the portion of the year in which you were an Arizona nonresident, only consider passive losses arising from Arizona sources in determining Arizona gross income.

The following line-by-line instructions apply to the ARIZONA column.

**Line B4 - Dates of Arizona Residency**

If you became an Arizona resident during 1995, enter the date that you became an Arizona resident. If you terminated your Arizona residency during 1995, enter both the date you became an Arizona resident and the date you terminated your Arizona residency.

**Line B5 - Wages, Salaries, Tips, etc.**

Enter all amounts received while an Arizona resident.

Also enter all amounts received from Arizona employers during the portion of the year in which you were an Arizona nonresident.

**NOTE:** *Do not include active duty military pay for the portion of the year in which you were a nonresident.*

**Line B6 - Interest**

Enter all amounts received while an Arizona resident.

You must also enter here any interest income derived from Arizona sources during the portion of the year in which you were an Arizona nonresident. Interest income from Arizona sources is interest income that has acquired an Arizona business situs.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach documentation substantiating the amounts received from Arizona municipal bonds that are exempt from Arizona income tax. Documentation may be items such as bank statements, brokerage statements, etc. Be sure you add the amount you received while an Arizona resident from non-Arizona municipal bonds to your income on line C22.

**Line B7 - Dividends**

Enter all amounts received while an Arizona resident.

You must also enter here any dividends derived from Arizona sources during the period in which you were an Arizona nonresident. Dividend income from Arizona sources is dividend income that has acquired an Arizona business situs.

**Line B8 - Arizona Income Tax Refunds**

Enter Arizona income tax refunds received in 1995 only if you itemized deductions on your 1994 Arizona income tax return.

**Line B9 - Alimony Received**

Enter amounts received while an Arizona resident.

Also enter any alimony received from an Arizona resident during the portion of the

year in which you were an Arizona non-resident.

### Line B10 - Business Income or (Loss)

Enter any business or farm income or (loss) incurred while you were an Arizona resident.

Also enter income or (loss) derived from Arizona businesses during the portion of the year in which you were an Arizona nonresident.

### Line B11 - Gains or (Losses)

Enter any gain or (loss) on property sold while an Arizona resident if the amount was included as income on your 1995 federal return.

Also enter gains or (losses) on sales of Arizona property during the portion of the year in which you were an Arizona nonresident.

### Line B12 - Rents, etc.

Enter income received from rents, royalties, partnerships, estates, trusts, small business corporations, etc., while an Arizona resident.

Also enter rent or royalty earned on Arizona properties during the portion of the year in which you were an Arizona nonresident. Enter any income or (loss) derived from Arizona sources from partnerships, estates, trusts, small business, corporations, etc., during the portion of the year in which you were an Arizona nonresident.

### Line B13 - Other Income Reported on Your Federal Return

Enter other income, such as pensions, social security, unemployment, and lottery winnings, shown on your federal return which were received while an Arizona resident.

Also enter any other income derived from Arizona sources during the portion of the year in which you were an Arizona nonresident.

### Line B14 - Total Income

Add lines B5 through B13 and enter the total.

### Line B15 - Total IRA Deduction

Enter amount actually paid while an Arizona resident for your IRA and/or your spouse's IRA.

### Line B16 - Other Federal Adjustments

If your federal return shows deductions for any of the following items, make an entry on this line as explained below. Attach your own schedule to show your calculation.

1. Keogh Retirement Plan and self-employed SEP deduction: enter amount actually paid while an Arizona resident.
2. Penalty on early withdrawal of savings: multiply the federal deduction by the ratio of your Arizona interest to your federal interest.
3. Alimony actually paid while an Arizona resident.
4. Moving expenses: enter the amount of moving expenses included in your federal adjusted gross income which were accrued and paid during the part of the year in which you were an Arizona resident.

### Line B17 - Total Adjustments

Add lines B15 and B16 and enter the total.

### Line B19 - Arizona Income

Complete line B19 as instructed on the form.

### Line B20 - Arizona Percentage

Divide line B19 by line B18, and enter the result on line B20. (Do not enter more than 100 percent.) This is the Arizona percentage of your total income.

#### Example:

Arizona Gross Income  
from line B19 = \$ 7,500

Federal Adjusted  
Gross Income  
from line B18 = \$ 30,000

Arizona percentage = \$ 7,500/30,000  
= 25%

## Determining Additions to Income

Line C21- Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You had previously deducted these contributions on your Arizona income tax returns.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-7. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**NOTE:** Any interest earned on your retirement contributions while they were in the system should be reported on line B6 in both the FEDERAL and ARIZONA income columns.

### Line C22- Other Additions to Income

Use line C22 if any of the special circumstances below applies. Attach your own schedule to the back of your return, explaining any amounts entered on line C22.

Items A, B, and C that follow must be added to income on line C22 of your return.

#### A. Non-Arizona Municipal Interest

Enter interest income earned from non-Arizona municipal bonds while an Arizona resident.

**NOTE:** *You may not reduce this addition by any interest or other related expenses incurred to purchase or carry the obligation.*

## B. Ordinary Income Portion of Lump Sum Distribution Excluded on Your Federal Return

Arizona law does not provide for 5 or 10 year averaging. Enter the amount of the distributions received while an Arizona resident and treated as ordinary income on your federal return. If you chose to treat the capital gain portion of the distributions as ordinary income, you must also include that amount on line C22.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 93-5. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

## C. Trust or Estate Deductions

You must add the following estate or trust deductions to your Arizona gross income.

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of the excess deductions and loss carryovers allowed under the Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to Arizona gross income only to the extent these items are included in computing your Arizona taxable income.

## D. Pension Adjustments

Items D and E may be either added to or subtracted from income (line C22 or D34, respectively) depending on your situation.

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if you reported your pension income as fully taxable on your federal return. Do not use this adjustment if you reported your pension income on your federal return under the "three-year-rule."

Follow these steps to calculate the adjustment:

### Worksheet (Keep for your records.)

1. Your contribution to annuity. \_\_\_\_\_
2. Pension amount received in prior years. \_\_\_\_\_
3. Remainder of cost (line 1 minus line 2, but not less than zero). \_\_\_\_\_
4. Pension amount received this year. \_\_\_\_\_
5. Amount from line 3. \_\_\_\_\_
6. Subtract line 5 from line 4 (but not less than zero). \_\_\_\_\_
7. Enter the pension amount taxable on your federal return. \_\_\_\_\_
8. Subtract line 7 from line 6. \_\_\_\_\_

If line 8 is more than zero, enter the line 8 amount as an addition to income on line C22, Form 140PY.

If line 7 is more than line 6, enter the difference as a subtraction from income on line D34, Form 140PY.

## E. Partnership Income

Use this adjustment if your Arizona Form 165 Schedule K-1 shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as an addition. Enter the addition on line C22.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that portion of the difference that is allocable to partnership

income taxable by Arizona as a subtraction. Enter the subtraction on line D34.

## F. Net Operating Losses

Arizona does not have specific Arizona net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions.

As a part-year resident, Arizona recognizes that portion of the federal net operating loss which is attributable to income taxed by Arizona as the Arizona net operating loss.

As a part-year Arizona resident, include in Arizona gross income the amount of federal net operating loss carryforward or carryback attributable to Arizona unless any of the following apply.

1. The net operating loss attributable to Arizona included in your federal adjusted gross income has already been deducted for Arizona purposes.
2. The net operating loss included in your federal adjusted gross income was incurred from non-Arizona activities prior to becoming an Arizona resident.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 94-1. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

## G. Agricultural Water Conservation Expenses

If you take the agricultural water conservation system credit, you must add the amount of agricultural water conservation expenses that you deducted under the Internal Revenue Code. If you take this credit, enter the amount of agricultural water conservation expenses you deducted in computing your federal adjusted gross income.

## H. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law, you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such

items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

### **I. Claim of Right Adjustment for Amounts Repaid in 1995**

You must make an entry here if all of the following apply.

1. During 1995, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 1995 was more than \$3,000.
4. You took a deduction for the amount repaid on your 1995 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

### **J. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years**

You must make an entry here if all of the following apply.

1. During a year prior to 1995 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.

3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1995 Arizona taxable income.
5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your Arizona gross income is more than the amount allowed for the taxable year under Arizona law.

### **K. Summer School and Jobs Program Wages**

Enter the amount of wages paid to students enrolled in the 1995 summer school and jobs program that is equal to the amount of the tax credit taken.

### **K. Other Adjustments**

Other special adjustments may be necessary for depreciation or amortization of pollution control devices, child care facilities or other items. Call one of the help numbers listed on page 1 of these instructions for more information on these adjustments.

### **Line C23 - Total Additions**

Add lines C21 and C22. Enter the total on line C23 and on the front of your return on line 15.

## **Determining Subtractions From Income**

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the help numbers listed on page 1 of these instructions.

**NOTE:** You may not subtract any amount which is allocable to income excluded from your Arizona taxable income.

### **Line D24 - Exemption: Age 65 or Over**

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

### **Line D25 - Exemption: Blind**

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

### **Line D26 - Exemption: Dependents**

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

### **Line D27 - Total**

Add lines D24 through D26 and enter the total.

### **Line D28 - Prorated Exemptions**

Multiply the amount on line D27 by the Arizona percentage from line B20 and enter the result.

### **Active Duty Military Personnel Only:**

*If you were an active duty military member who either commenced or terminated Arizona residency during 1995, do not prorate these exemptions. You are allowed 100 percent deductions for the age 65, the blind, and the dependents exemptions. Enter the amount on line D27 (Total) on this line.*

### **Line D29 - Interest on U.S. Obligations**

Enter the amount of interest income from U.S. Government obligations included on line B6 in the ARIZONA column. U.S. Government obligations include obligations such as U.S. savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

**NOTE:** Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona.

For more information, see the department's *Guidelines for Exempt Securities*. To get a copy of this guideline, call one of the help numbers listed on page 1 of these instructions.



**Line D30 - Arizona Lottery Winnings**

You may subtract all winnings received in 1995 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1995 for Arizona lottery prizes won after March 21, 1983. Only subtract those Arizona lottery winnings which are included on line B13 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

**Line D31 - Social Security Benefits or Railroad Retirement Benefits**

**Tax Tip:** *Unlike the federal government, Arizona does not tax any social security or railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement amounts on your federal return as income and included this amount in the Arizona column on line B13, use line D31 to subtract this income.*

Enter the portion of the amount from your federal Form 1040, line 20b (and line 16b if you reported any railroad retirement benefits) that you received while an Arizona resident.

**Line D32 - Agricultural Crops Contributed to Arizona Charitable Organizations**

Arizona law allows a subtraction for qualified crop contributions made during 1995 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. Your contribution must be made to a charitable organization located in Arizona which is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the contributed crop.

To determine if your crop contribution qualifies for this subtraction, see Arizona Department of Revenue Procedure ITP 93-2. To get a copy of this procedure,

call one of the help numbers listed on page 1 of these instructions.

**Line D33 - Alternative Fuel Vehicles and Refueling Equipment**

For taxable years beginning from and after December 31, 1993, Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may take a subtraction for purchasing a new alternative fuel vehicle. You may take a subtraction for converting a conventional fuel vehicle to an alternative fuel vehicle. You may take a subtraction for installing an alternative fuel delivery system. You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part 1, line 28 here.

**Line D34 - Other Subtractions**

Use line D34 if any of the following special circumstances apply. Attach your own schedule to the back of your return, explaining any amounts entered here.

**A. Exclusion for U.S. Government, Arizona State, or Local Pensions**

If you receive federal, Arizona state, or local pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return and included on line B13 in the ARIZONA column. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction:

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

**NOTE:** *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city or town in Arizona
- The optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes

**NOTE:** *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

**B. Distribution From Certain Retirement Accounts**

If you were an Arizona resident before December 31, 1975, and one of the following applies, you may have a subtraction here.

1. You are receiving distributions from your IRA account to which you were contributing before December 31, 1975.

2. You are receiving distributions from your self employment qualified retirement plan to which you were contributing before December 31, 1975.

Calculate the subtraction by using the following worksheet:

**Worksheet** (Keep for your records)

1. Enter the contributions made during your Arizona residency and deducted on your federal return before December 31, 1975. \_\_\_\_\_
2. Enter any adjustments deducted on your Arizona returns for 1979 through 1994. If line 2 is more than line 1, stop here. You do not have an adjustment. \_\_\_\_\_
3. If line 2 is less than line 1, subtract line 2 from line 1 and enter the answer. \_\_\_\_\_
4. Enter the distribution taxable on your federal return. \_\_\_\_\_
5. Compare the amounts on lines 3 and 4 and enter the smaller amount as your allowable subtraction on line D34, Form 140PY. \_\_\_\_\_

**C. Previously Reported Gain on Decedent's Installment Sale**

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. Deduct that portion of the gain included on line B11, ARIZONA column.

**D. Certain Wages of American Indians**

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation which are included on line B5, ARIZONA column. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 91-3. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**E. Combat Pay**

Members of the U.S. armed forces receiving combat pay may subtract combat pay included in their 1995 federal adjusted gross income. Enter only that amount of combat pay reported on your federal return that is included on line B5 in the ARIZONA column.

**F. Federally Taxable Arizona Municipal Interest**

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona, that is included in your Arizona gross income. Enter only that amount of Arizona municipal interest income that is included on line B6 in the ARIZONA column. Do not enter any Arizona municipal interest which is exempt from federal taxation and is not included in your federal adjusted gross income.

**G. Adoption Expenses**

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or \$3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

**H. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace**

Arizona law provides a subtraction for the purchase of a qualified wood stove,

wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for converting an existing fireplace to a qualified wood stove, wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, include the purchase price and the installation cost of the fireplace and any non-optional equipment directly related to its operation. Do not include taxes, interest, or other finance charges in the purchase price and installation costs.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July, 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

**I. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years.**

You must make an entry here if all of the following apply.

1. During a year prior to 1995 you were required to repay income held under a claim of right.

2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1995 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your Arizona gross income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your Arizona gross income.

### Line D35 - Total Subtractions

Add lines D28 through D34. Enter total on line D35 and on the front of your return, line 18.

### Different Last Names

If you have filed an Arizona tax return within the past four years with a different last name enter your prior last name(s) in part E.

### Totaling Your Income

#### Line 13 - Federal Adjusted Gross Income

You must complete your federal return before completing your Arizona return. Even if not filing a federal return, you must complete a 1995 federal return to determine your federal adjusted gross income.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B18.

#### Line 14 - Arizona Income

Enter your Arizona income from page 2, line B19, of your return.

#### Line 15 - Additions to Income

Enter the amount from page 2, line C23, of your return.

#### Line 16 - Amounts Received From an Individual Medical Savings Account

For information on individual medical savings accounts, see the department's individual medical savings account brochure. To get a copy of this brochure, call one of the help numbers listed on page 1 of these instructions.

You must include amounts received from an individual medical savings account here if any of the following three situations apply.

##### 1 - Withdrawals

You must make an entry here if both of the following apply.

1. You withdrew money from your individual medical savings account during 1995.
2. You did not deposit the amount withdrawn into another individual medical savings account within 60 days of the withdrawal.

Enter the amount withdrawn here. Do not enter any qualified medical payments or reimbursements made by the plan. Such payments or reimbursements are not withdrawals.

##### 2 - Transfers or Distributions Received Under the Terms of a Legal Separation or Dissolution of Marriage.

You must make an entry here if all of the following apply.

1. You received a transfer or distribution from your spouse's or former spouse's individual medical savings account.
2. The transfer or distribution was required under the terms of a legal separation or dissolution of marriage.
3. You did not deposit the full amount of the transfer or distribution into another individual medical savings account within 60 days of the transfer or distribution.

If the above apply, enter the amount you received from the transfer or distribution here.

#### 3 - Change in Employment

You must enter here the amount received from your individual medical savings account if you changed employers during 1995 and all of the following apply.

1. Your former employer was the trustee of your individual medical savings account.
2. Your former employer would not retain the funds in your account.
3. Your former employer closed your account and mailed you a check for the amount in the account.
4. You did not deposit the amount of that check into another medical savings account within 60 days of receiving the check.

#### Line 18 - Subtractions From Income

Enter the amount from page 2, line D35, of your return.

#### Line 19 - Deposits and Employer Contributions Into Individual Medical Savings Accounts

For information on individual medical savings accounts, see the department's brochure on individual medical savings accounts. To get a copy of this brochure, call one of the help numbers listed on page 1 of these instructions.

#### Deposits Made Into Your Individual Medical Savings Account

For 1995, you may subtract up to \$4,000 of eligible deposits made into your individual medical savings account.

If you and your spouse each have an individual medical savings account, you may each subtract up to \$8,000 if both you and your spouse did not make deposits for the same dependents.

##### Example:

A husband and wife each establish an individual medical savings account. They have four children. During 1995, the husband deposited \$2,000 into his account for himself plus an additional \$2,000 for two of the children. The wife deposited \$2,000 into her account for herself plus an additional \$2,000 for the other two children. During 1995, this couple made

eligible deposits of \$8,000 into their individual medical savings accounts. Based on the facts in this example, this couple would enter \$8,000 on line 19.

Eligible deposits include the following.

1. Deposits you made into your individual medical savings account.
2. Contributions your employer made to your individual medical savings account.

You can subtract employer contributions only to the extent included in your Arizona gross income.

### Employer Contributions Made to Employee Individual Medical Savings Accounts

If you are an employer, you may subtract the amount contributed to your employees' individual medical savings accounts. These contributions can be subtracted only to the extent not deductible for federal income tax purposes. You can subtract these contributions only to the extent they are included in your Arizona gross income.

#### Line 20 -

Subtraction of Federal Retirement Contributions

*This line applies only to individuals who were civilian employees of the United States Government during 1995.* The Arizona Court of Appeals ruled that the Arizona statute which effectively taxes federal employees' contributions to federal retirement plans violates the doctrine of intergovernmental tax immunity. Both the plaintiffs and the state have filed requests for reconsideration of the case with the Arizona Court of Appeals. Therefore, the issue is not yet settled.

Line 20 is provided to alert you to a remedy available to you under Arizona law. On your 1995 return, you have two options.

#### Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 20 the 1995 amount of such contributions included in your Arizona income subject

to tax. If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax your retirement contributions, you will owe additional tax and accrued interest. (Also, see *Protective Claim for Refund* below.)

#### Option #2

You may choose to ignore line 20. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

### Protective Claim for Refund

You can find this form in the front of this instruction booklet. If you were a civilian employee of the United States government at any time during the years 1991 through 1995, you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **option #2** above for 1995, you should also include 1995 in your claim. Claims for 1991 must be postmarked by April 15, 1996, to be valid. If you previously filed a protective claim for 1990 through 1994, only include 1995 on the claim form filed for 1995.

Please do not include the protective claim with your 1995 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

### Figuring Your Arizona Tax

#### Line 23 - Itemized/Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

### Your Standard Deduction

**Tax Tip:** *The standard deduction is not prorated.*

If you take the standard deduction, check box 23S.

If your filing status is:	Your standard deduction is:
Single	\$ 3,600
Married filing separate	\$ 3,600
Married filing joint	\$ 7,200
Head of household	\$ 7,200

### Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are, with some exceptions, those itemized deductions that are allowable under the Internal Revenue Code.

A part-year resident who has no Arizona source income during the portion of the year while an Arizona nonresident can deduct: (1) those expenses which were incurred and paid during the part of the year while an Arizona resident plus (2) Arizona source itemized deductions incurred and paid during the period of non-residency.

Complete Arizona Form 140PY, Schedule A(PY) to determine your Arizona itemized deductions.

A part-year resident who also had Arizona source income during the portion of the year while an Arizona nonresident can deduct: (1) those expenses which were incurred and paid during the part of the year while an Arizona resident plus (2) Arizona source itemized deductions incurred and paid during the period of nonresidency plus (3) a portion of all other itemized deductions paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PYN) to determine your Arizona itemized deductions. Form 140PY, Schedule A(PYN) is not included in your booklet. You may get this form by calling one of the help numbers listed on page 1 of these instructions.

To determine your Arizona itemized deductions, complete a federal Form 1040,

Schedule A. Then complete the Arizona Form 140PY, Schedule A(PY) or A(PYN). If you itemize deductions, check box 23I.

**NOTE:** *If you itemize, you must attach a copy of your federal Schedule A to your Arizona return.*

For more information on itemized deductions allowed to a part-year Arizona resident, see Arizona Individual Income Tax Ruling ITR 94-10. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

### Line 24 - Personal Exemptions

The amount of your personal exemption depends on your filing status and the portion of income related to Arizona.

If you checked Filing Status box 4 or 5, multiply \$4,200 by your Arizona percentage from page 2, line B20. Enter the result on line 24.

If you checked Filing Status box 6 or 7, multiply \$2,100 by your Arizona percentage from page 2, line B20. Enter the result on line 24.

**Active Duty Military Personnel Only:** *If you were an active duty military member who either commenced or terminated Arizona residency during 1995, do not prorate the personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

### Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y.

### Line 27 - Tax Amount

Enter the tax from Tax Rate Table X or Y.

### Line 28 - Tax From Recapture of Credits From Form 301

Enter the amount of tax due from recapture of the environmental technology credit and/or the recycling equipment credit from Form 301, Part II, line 18.

### Line 29 - Subtotal of Tax

Add lines 27 and 28.

### Line 30 - Family Income Tax Credit

You may take the family income tax credit if you meet the following.

1. You are single or married filing separately and your Arizona gross income (line 14 of your Form 140PY) is \$10,000 or less.
2. You are married filing jointly or unmarried head of household, and your Arizona gross income (line 14 of your Form 140PY) is \$20,000 or less.

### Line 31 - Credits From Form 301

Complete line 31 if you can take any of the following credits.

1. **Defense Contracting Credit.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.
2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in employment of qualified employees. Use Form 304 to figure this credit.
3. **Environmental Technology Credit.** You may qualify for this credit if your
  - a. If you checked filing status 4 or 5, is the amount on page 1, Form 140PY, line 14, \$20,000 or less? If no, **STOP**. You do not qualify.
  - b. If you checked filing status 6 or 7, is the amount on page 1, Form 140PY, line 14, \$10,000 or less? If no, **STOP**. You do not qualify.
4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.
5. **Recycling Equipment Credit.** You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.
6. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state on the same income. Use Form 309 to figure this credit.
7. **Solar Energy Credit.** You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.
8. **Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural

business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

### Family Income Tax Chart Worksheet — Line 30

To figure your credit, complete the worksheet below.

1. a. If you checked filing status 4 or 5, is the amount on page 1, Form 140PY, line 14, \$20,000 or less? If no, **STOP**. You do not qualify.  
b. If you checked filing status 6 or 7, is the amount on page 1, Form 140PY, line 14, \$10,000 or less? If no, **STOP**. You do not qualify.
2. Enter the number of dependents you entered in Box 10, page 1, Form 140PY. \_\_\_\_\_
3. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. \_\_\_\_\_  
If you checked filing status 5, 6, or 7, enter the number 1 here. \_\_\_\_\_
4. Add lines 2 and 3. Enter the result. \_\_\_\_\_
5. Multiply the amount on line 4 by \$30. Enter the result. \_\_\_\_\_
6. If you checked filing status 4 or 5, enter \$120 here. \_\_\_\_\_  
If you checked filing status 6 or 7, enter \$60 here. \_\_\_\_\_
7. Family income tax credit. Enter the lesser of line 5 or line 6. \_\_\_\_\_  
Enter the amount from line 7 of the above worksheet on page 1, Form 140PY, line 30.

water conservation system in Arizona. Use Form 312 to figure this credit.

9. **Alternative Fuel Credit.** You may qualify for this credit if you purchased a new alternative fuel vehicle or alternative fuel refueling equipment. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. Use Form 313 to figure this credit.

10. **Underground Storage Tanks Credit.** You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

11. **Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

12. **Construction Materials Credit.** You may qualify for this credit if you purchased construction materials for a building used in manufacturing mining or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

13. **Summer School and Jobs Credit.** You may qualify for this credit if you are an employer that has employed a qualifying student during the summer of 1995. Use Form 317 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 33. The credits on line 31 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

### Line 32 - Credit Type

If you entered an amount on line 31 write the form number of the form you used to figure your credit.

If you are claiming: Write form number:

1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Solar Credit	310
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Summer School and Jobs Credit	317

### Line 33 - Total Credit

Add lines 30 and 31. Enter the result.

### Line 34 - Total Tax

Subtract line 33 from line 29. If line 33 is more than line 29, enter zero.

### Line 35 - Federal Retiree Credit

If you received a federal retiree Annual Credit Statement for 1995, enter the amount of credit shown on your 1995 Annual Credit Statement.

### Line 36 - Balance of Tax

Subtract line 35 from line 34, but do not enter an amount less than zero. If line 35 is larger than line 34, enter zero on line 36.

## Totaling Payments

### Line 37 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld as shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Attach the Form(s) W-2 and 1099-R to the front of your return. Do not include income taxes withheld by any other state.

### Line 38 - Arizona Estimated Tax Payments for 1995 and Amount Applied From 1994 Return

Use this line if you did at least one of the following:

1. Made estimated income tax payments to Arizona for 1995.
2. Applied any of your refund from your 1994 Arizona return to 1995 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1995 taxes.

### Line 39 - Amount Paid With 1995 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

## Figuring Your Overpayment or Tax Due

### Line 40 - Total Payments

Add lines 37 through 39. Enter the total.

Also, do the following if you computed your 1995 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 40.

3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

#### **Line 41 - Tax Due**

If line 36 is more than line 40, you have tax due. Subtract line 40 from line 36. Skip lines 42, 43, and 44.

#### **Line 42 - Overpayment**

If line 40 is more than line 36, subtract line 36 from line 40. Complete lines 43 and 44.

#### **Line 43 - Amount of Line 42 to Apply to 1996 Tax**

If you want all or part of your refund applied to next year's Arizona estimated taxes, enter that amount.

#### **Line 44 - Balance of Overpayment**

Subtract line 43 from line 42 to determine your overpayment balance before voluntary contributions and any estimated payment penalty.

### **Making Voluntary Contributions**

You can make voluntary contributions to each of the funds shown below. A contribution will reduce your refund or increase the amount due with your return.

You cannot change original contributions later on amended returns.

#### **Line 45 - Arizona Wildlife Fund**

Contributions go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

#### **Line 46 - Child Abuse Prevention Fund**

Contributions go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

#### **Line 47 - Neighbors Helping Neighbors Fund**

Contributions go to the Neighbors Helping Neighbors Fund. This fund provides

eligible recipients with emergency aid in paying energy utility bills, conserving energy, and weatherization.

#### **Line 48 - Special Olympics Fund**

Contributions go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

#### **Line 49 - Political Contributions**

Contributions go to one of the following political parties:  
Democratic  
Libertarian  
Republican

#### **Line 50 - Political Party**

Check the box for the political party to which you wish to give. You may select only one party. If you do not select a political party, the department will return the amount on line 49.

#### **Line 51 - Estimated Payment Penalty and Interest**

You must have made Arizona estimated income tax payments during 1995 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1995.
2. Your Arizona gross income in 1994 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence in determining if estimated tax payments are required.

If you were unable to project your 1995 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1995.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.

2. Using ordinary business care and prudence, you were unable to reasonably project your 1995 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 1995 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 1996. You pay in full the amount stated on your return as payable.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

#### **If the above applies, check box 2 on line 52 and do not complete Form 221.**

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment which is late or underpaid.

Complete and attach Form 221, Underpayment of Estimated Tax by Individuals, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

#### **Line 52 -**

**Box 1** - Check box 1 if any of the following applies to you:

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

**Box 2** - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

**Box 3** - If you completed and attached Form 221, check box 3.

## Figuring Your Refund or Tax Due

### Line 53 - Individual Medical Savings Account Withdrawal Penalty

Withdrawals made from your individual medical savings account on any day other than the last business day of the year are subject to a ten percent (.10) penalty on the amount withdrawn. This penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which the withdrawal was made.

Multiply the amount of your withdrawal subject to penalty by ten percent (.10). Enter the result here.

The following withdrawals are not subject to the penalty.

1. Withdrawals made from your individual medical savings account on the last business day of the tax year.
2. Transfers or distributions you received from your spouse or former spouse under the terms of a legal separation or dissolution of marriage.
3. Your former employer closed your account and mailed you a check for the amount in the account.

### Line 55 - Refund

Subtract line 54 from the amount on line 44. Enter your refund on line 55 and skip line 56.

If a refund is less than \$1, you must request your refund in writing. Attach your request to the front of your return.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

**Tax Tip:** *If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your correspondence.*

### Line 56 - Amount Owed

Add lines 41 and 54, enter the amount you owe on line 56.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

## Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

## Instructions Before Mailing

### Before You File Your Return

- Include your home telephone number and a daytime telephone number, if different.
  - Double check your **MATH**. A simple error can cause major delays in processing your return.
  - Make sure your NAME is on the return. If you received your return in the mail, use the preprinted label. If the label is not correct, do not use it.
  - If claiming dependent exemptions, write the number of dependents claimed on the **front** of the return. Also, write each claimed dependent's name, relationship and social security number on the back of the return.
  - Check the boxes to make sure they are filled in.
  - Attach all required documents.
1. Attach Form(s) W-2 and 1099-R to the front of your return.
  2. Write your social security number on the front of your check and attach your **check** to the **front** of the return.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

3. Attach Form 301 and your own schedules to the back of your return.
  4. If you are claiming a credit for taxes paid to another state or country, attach copies of the other state's or country's filed return.
  5. If you requested a filing extension, attach a copy of the federal or state extension requests to the front of your return.
  6. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
- Sign your return and have your spouse sign if filing jointly.

## Filing Your Return

Make a copy of your return and any accompanying schedules to keep for your records before mailing the return. (Remember to file the original, not a copy.)

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

### Make sure you put enough postage on the envelope.

Finally, remember, the U.S. Postal Service must postmark your return or extension request by midnight April 15. *Postage meter postmarks are unacceptable. Only U.S. Post Office postmarks qualify.*

## How Long To Keep Your Return

You must keep your records as long as they are important for any Arizona tax law. Keep records that support an income or deduction item at least until the period of limitations expires for that return. (A period of limitations is the limited time after which no legal action can be brought.) Usually, this is four years from the date the return was due or filed. However, there are instances where the limitation period is longer than four years. For instance:

If unreported income is more than 25 percent of the income shown on the return,



the period of limitations does not expire until six years after filing the return.

The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

There are other situations which could extend the limitation period longer than four or six years. Therefore, keep some records

longer. For example, keep records which establish the basis of property for a period longer than four years. Additionally, keep net operating loss records back to the date you incurred the loss. For additional information, get federal Publication 552, Record Keeping For Individuals.

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## **When To Expect Your Refund**

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Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the help numbers listed on page 1 of these instructions.